

VZCZCXRO2977
RR RUEHCHI RUEHDT RUEHHM RUEHNN
DE RUEHBK #3828/01 1791055
ZNR UUUUU ZZH
R 281055Z JUN 06
FM AMEMBASSY BANGKOK
TO RUEHC/SECSTATE WASHDC 9755
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHCHI/AMCONSUL CHIANG MAI 2036
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 02 BANGKOK 003828

SIPDIS

SENSITIVE

SIPDIS

DEPT FOR EAP/MLS AND EB
TREASURY FOR OASIA
COMMERCE FOR 4430/EAP/MAC/OKSA
STATE PASS TO USTR FOR WEISEL

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EFIN](#) [TH](#)

SUBJECT: CREDIT TIGHTENING IN THAILAND

REF: A) BANGKOK 1665 (POLITICAL PROBLEMS EFFCT THAI ECONOMY);

B) BANGKOK 2360 (THAI ECONOMY REACTS TO POLITICAL UNCERTAINTY);

C) BANGKOK 2978 (THAILAND: INVESTMENT SLOWDOWN)

BANGKOK 00003828 001.2 OF 002

¶1. (U) Summary. Deputy Prime Minister and Commerce Minister Somkid will be visiting the US July 9-14 to fly the Thai flag for investment. The slowing of the Thai economy is being exacerbated in the short term by a reduction in credit availability and lack of liquidity in the stock exchange. Because of the government's caretaker status, programs to ameliorate these problems are of limited effectiveness. End Summary.

¶2. (SBU) On-going political uncertainty combined with rising interest rates and high energy prices continue to depress the Thai economy. Government and private consumption and capital expenditure are both in general decline. Record high imports (US\$11.5 billion) in May reportedly were largely the result of importers taking advantage of a strong baht which they expected to decline following aggressive business lobbying of the Bank of Thailand (to date, there is no indication that the business community was successful in seeking exchange rate relief from the central bankers with the baht holding steady at 38-39/1US\$). Although Q1 GDP grew 6 percent from last year, this was off a low base affected by the December 2004 tsunami and unusually high oil imports.

SIPDIS

¶3. (U) While the banking system is quite liquid, access to capital is becoming more difficult for many. Banks have tightened their lending standards, rejecting mortgage applications they would have approved a year ago, lending a maximum of 70 percent of value (vs. 100 percent a year ago) and generally applying much more stringent lending practices in advance of what they perceive as a general decline in consumer and corporate cash flow. A major property developer told us that banks will simply not lend except against 100 percent collateral. With credit card late payments increasing to about 3.5 percent of outstanding credits, card issuers are also becoming more selective in granting increases in credit lines.

¶4. (U) Credit tightening is also reflected in a declining bank loan/deposit ratio which stood at 91 percent at the end of December 2005 and fell to 86.4 percent in April, the lowest level since November 2003. New loan growth is estimated at 8 percent so far this year, however several analysts have said that the majority of these "new loans" are to other financial institutions in the form of US\$

deposits, seeking to earn the spread between bank cost of funds (1.7 percent) and 3 month US\$ deposits (5.55 percent). Three month baht deposits earn a maximum 5.39 percent. This spread between US\$ and baht interest rates is one reason that many expect the Bank of Thailand to continue raising rates so long as the US Federal Reserve does so.

¶15. (U) In an effort to stimulate the economy in the face of rising rates, expenses, and declining consumer and investor confidence - or at least support small businesspersons and farmers - the RTG has instructed the specialized financial institutions (SFIs) that it controls (Bank of Agriculture and Agricultural Cooperatives-BAAC, Government Savings Bank-GSB, Government Housing Bank, GHB, Small and Medium Enterprise Bank-SME Bank) to lend at below market rates and help their existing customers cope with rising expenses. Examples of these programs include GHB cutting its margin on new mortgages by 50 basis points and BAAC reducing interest charges to borrowers of less than 100,000 baht (US\$2600) by 1 percent. GHB is offering 6 month to one year of interest-only payments to some customers and the SME Bank is also helping to restructure the loans of many of its customers (although with an NPL rate of around 19 percent, they don't have much choice).

¶16. (U) To pay for these programs, the SFIs have asked for additional deposits from the Ministry of Finance to reduce their cost of funds. They are also seeking permission to pay no interest on these deposits. While many existing borrowers are taking advantage of these SFI programs, few new loans are being extended as the general reluctance to spend and invest seen in the overall economy is reflected in the micro and SME sectors. These SFI programs are seen largely as a public relations effort with little effect on SFI operations or the economy.

¶17. (SBU) Thailand's alternative to bank finance, the Stock Exchange of Thailand, has had only five IPOs since February and trading volume over the last few weeks has been so low that there is danger of some of the smaller brokers going out of business despite a fixed commission system. Foreigners were net buyers of US\$7.3 billion of Thai equities from November 2004 through May 9, 2006. Since then, foreign investors have sold US\$1.4 billion of their position

BANGKOK 00003828 002.2 OF 002

although little of this has left the country as evidenced by the continuing strength of the baht. The President of the Stock Exchange told us that increased volume and an upturn in equity offerings is unlikely until the political scene stabilizes.

¶18. (SBU) Comment: With FDI remaining low (see reftel C) and domestic confidence down, Deputy Prime Minister Somkid intends to use his mid-July visit to the US to try and reassure current and potential investors that Thailand remains open for business despite the continuing political uncertainty. He is scheduled to meet with USTR and Department of Commerce in addition to Ford (which is considering additional investment in Thailand) and AIG. With the economy in the doldrums, no ability to proceed with bilateral trade negotiations, American business concerned about tenuousness of continued RTG support for the Treaty of Amity and Economic Relations (which governs our bilateral investment relationship), and the general inability of this caretaker government to undertake any policy initiatives, Somkid's task is a difficult one.

ARVIZU